BETWEEN COMPLIANCE AND COMPETITIVENESS: HOW EU CARBON REGULATIONS ARE RESHAPING THE EXPORT LANDSCAPE FOR UZBEK COMPANIES

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Abstract

The European Union's twin regulatory frameworks — the Carbon Border Adjustment Mechanism (CBAM) and the Corporate Sustainability Reporting Directive (CSRD) — are transforming the conditions under which non-EU exporters access European markets. This article examines the implications of these regulations for Uzbek companies engaged in, or aspiring to engage in, EU-oriented trade. It argues that while CBAM and CSRD introduce real compliance costs and institutional challenges, they simultaneously create a window of opportunity for Uzbek exporters willing to invest in emissions transparency and sustainable production. The article outlines the key mechanics of each regulation, assesses Uzbekistan's current exposure, and proposes a framework for how Uzbek businesses and policymakers can respond strategically.

1. Introduction

Trade policy is rarely just about trade. When the European Union began designing its Green Deal, the stated objective was domestic decarbonization. But the instruments chosen to pursue that goal — particularly CBAM and CSRD — reach well beyond EU borders. They touch every exporting country whose goods flow into European markets, including those that had no part in writing the rules.

Uzbekistan is one such country. The EU is Uzbekistan's third-largest trading partner and its second-largest export destination [1], and the relationship is growing fast. Uzbekistan's exports to EU countries grew by 26.9% in 2024 alone, reaching $1.7 billion [2]. In October 2025, the two sides signed an Enhanced Partnership and Cooperation Agreement (EPCA) — the first such agreement between the EU and a Central Asian state — alongside a landmark bilateral deal on WTO accession, signalling a significant deepening of institutional ties. That trajectory makes the EU's regulatory direction a matter of direct economic consequence for Uzbek producers.

The ambition to deepen this trade relationship now runs into a new regulatory reality. To access the EU market competitively, Uzbek exporters will increasingly need to demonstrate carbon accountability, supply chain transparency, and sustainability disclosure capacity. This article has two goals: to explain what CBAM and CSRD require, and to assess what they mean specifically for Uzbekistan — including the risks and the underappreciated opportunities.

2. The Carbon Border Adjustment Mechanism: Mechanics and Scope

CBAM was conceived to solve a specific problem: carbon leakage. When the EU prices carbon domestically through the Emissions Trading System (ETS), but imports from countries without equivalent carbon costs enter freely, the environmental gain is diluted, and EU producers face an unfair cost disadvantage. CBAM addresses this by requiring importers to purchase certificates corresponding to the embedded carbon in goods entering the EU.

On January 1, 2026, CBAM entered its compliance phase, formally ending the 2023–2025 transitional period during which quarterly emissions reporting was required but no financial obligations applied [3]. The shift from reporting to pay is the defining change for exporters now.

The financial timeline matters and is worth stating clearly: 2026 imports generate the CBAM liability, but the actual purchase and surrender of certificates does not occur until 2027. The first certificate surrender deadline is September 30, 2027, covering goods imported during 2026 [3]. This does not reduce the urgency — companies must track and verify embedded emissions throughout 2026 to meet that obligation — but it does mean exporters have time to build compliance infrastructure before cash payments fall due.

CBAM currently applies to a defined set of carbon-intensive goods at highest risk of carbon leakage: iron and steel, cement, fertilizers, aluminum, hydrogen, and electricity [4]. These are not peripheral categories. For emerging economies with industrial export ambitions, they represent core sectors.

The scope is also expanding. A December 2025 European Commission proposal would extend CBAM to approximately 180 downstream products — manufactured goods incorporating materials already covered by the mechanism — responding to concerns that rising EU carbon prices could intensify downstream carbon leakage [5].

One important simplification came through the EU Omnibus package: a new mass-based threshold now exempts importers that bring in 50 tonnes or less of CBAM-covered goods per year [6], reducing the burden on smaller trade flows while preserving the mechanism's environmental integrity.

3. The Corporate Sustainability Reporting Directive: A Different Kind of Demand

While CBAM works through a pricing mechanism, CSRD works through disclosure. It requires companies within its scope to report on environmental and social impacts using standardized European Sustainability Reporting Standards (ESRS). The pressure on non-EU exporters is indirect but real: large EU companies subject to CSRD must account for their entire value chain, which means they will need sustainability data from their suppliers — including those in Uzbekistan.

Following the EU Parliament's approval of the Omnibus I simplification package in December 2025 — subsequently ratified by the EU Council in February 2026 — the CSRD scope was significantly narrowed. Only companies with more than 1,000 employees and over €450 million in net annual turnover now remain in scope [7]. This is a substantial reduction from the original design, which would have captured around 50,000 companies.

The supply chain pull, however, persists. A large EU manufacturer that buys copper, textiles, or agricultural products from Uzbek companies still needs emissions and sustainability data from those suppliers to satisfy its own reporting obligations. While the Omnibus changes protect smaller businesses from overburdensome information requests — companies with fewer than 1,000 employees can now refuse to provide data beyond voluntary SME sustainability standards [8] the legal protection from mandated data sharing does not protect against commercial displacement. An Uzbek supplier that cannot produce any emissions data risks being passed over by EU buyers managing their own CSRD risk.

For Uzbek companies, CSRD therefore presents a quieter but structurally persistent challenge: market access increasingly rewards a basic capacity for sustainability reporting, even in the absence of a direct legal obligation.

4. Uzbekistan's Exposure: A Differentiated Picture

A careful assessment of Uzbekistan's position reveals more complexity than a straightforward "burden" narrative.

The risk is real. Uzbekistan's industrial base directly overlaps with CBAM-covered sectors. The country's flagship industrial enterprise, the Almalyk Mining and Metallurgical Complex (AMMC), accounts for approximately 15% of Uzbekistan's total exports [9] and exceeded $510 million in metal and chemical export revenues in 2025 [10]. Without a domestic carbon pricing mechanism, Uzbek producers cannot offset CBAM costs by claiming credit for carbon already priced at home. That means the full certificate cost falls on EU importers as a markup on Uzbek goods — a straightforward competitive disadvantage relative to producers from countries with active carbon markets.

Institutional readiness is a further concern. CBAM compliance requires detailed, verified emissions data at the production facility level. This demands carbon accounting systems, third-party verification capacity, and familiarity with EU regulatory processes — infrastructure that remains nascent in Uzbekistan's business environment.

The opportunity side, however, is where the analysis becomes genuinely interesting. According to World Bank analysis, Uzbekistan's aluminum sector has lower emission intensities than the average EU producer, giving it a potentially negative CBAM Trade Exposure index — meaning its exports could become more competitive relative to higher-emitting producers [11]. This is a significant finding, and it inverts the standard narrative about CBAM's impact on developing countries' exporters. It is, however, specific to aluminum. In sectors like cement, Uzbekistan's carbon intensity is less favorable, and the competitive picture differs accordingly.

This distinction points to the central strategic insight: CBAM imposes penalties on opacity as much as on actual emissions. A genuinely low-carbon producer that cannot document and verify its emissions profile is treated identically to a high-emitter. Uzbek companies in sectors where their production is comparatively clean — and AMMC's recent investments in electrification and renewable-powered infrastructure are relevant here — stand to benefit significantly if they can translate operational performance into credible, verified data.

5. A Strategic Framework for Uzbek Exporters and Policymakers

Three priorities emerge from this analysis — one is urgent, one is medium-term, and one requires government leadership.

The immediate priority is measurement. Companies that export, or plan to export, CBAM-covered goods to the EU should begin carbon accounting now, using methodologies aligned with CBAM's calculation requirements. This is not just a compliance exercise. It is how Uzbek exporters demonstrate their actual competitiveness rather than suffer from the default assumption that unverified emissions are high.

The medium-term priority is verification capacity. CBAM compliance requires accredited third-party assessors who can certify emissions data to EU standards. Uzbekistan currently has limited domestic capacity in this area. Building partnerships with internationally recognized verification bodies — or supporting the development of locally accredited institutions — should be treated as a shared investment by industry and government rather than a cost borne by individual firms.

The structural priority is carbon pricing. A domestic carbon pricing instrument, even a modest one limited to CBAM-covered sectors, would allow Uzbek producers to claim a deduction against CBAM certificate costs. Rather than the certificate revenue flowing to the EU budget, it would remain in Uzbekistan. Several countries in Uzbekistan's broader trade neighborhood are actively evaluating this option. Early movers gain the institutional knowledge advantage and, crucially, the credibility that comes with demonstrated commitment to carbon pricing.

Alongside these firm-level and policy priorities, Uzbekistan's deepening engagement with the EU — reflected in the Enhanced Partnership and Cooperation Agreement signed in October 2025 and the concluded bilateral WTO accession deal [1][1] — creates a platform for regulatory dialogue on CBAM recognition and equivalence. That dialogue should begin now, before the compliance framework hardens.

6. Conclusion

CBAM and CSRD are structural features of the European market, not temporary disruptions. Their scope is expanding and their enforcement is becoming more rigorous. Uzbekistan's response to them will, in part, determine whether the country deepens or stalls its growing trade relationship with the EU.

The analysis here does not support either uncritical alarm or easy optimism. The challenges are real: no domestic carbon price, limited verification infrastructure, and institutional unfamiliarity with EU regulatory processes. But the underlying position is stronger than it might appear. Uzbekistan's largest industrial exporter operates in sectors where its emissions profile may be genuinely competitive. What converts that potential advantage into a realized one is not production alone — it is the ability to prove it.

That proof requires investment in measurement, verification, and regulatory engagement. Those are achievable goals, and they are worth pursuing not because the EU has demanded them, but because companies that can demonstrate clean production will be preferred partners in any market where buyers face sustainability obligations. The EU is that market today. Others will follow.

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